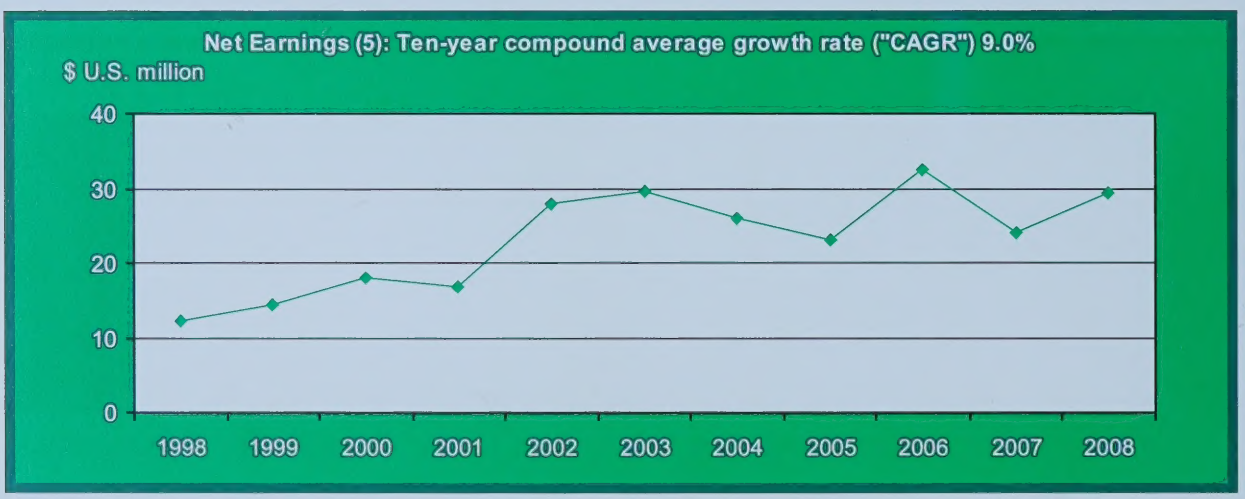
AR91

# 2008 WINPAK ANNUAL REPORT

*(Values expressed in U.S. dollars)*

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Operating results ($ million except e.p.s.) | | | | | |
| Sales | **512.0** | 466.6 | 447.1 | 436.7 | 393.1 |
| Earnings from operations (EBIT) | **46.3** | 34.0 | 48.8 | 35.3 | 44.0 |
| EBITDA (1) | **71.7** | 58.1 | 69.6 | 55.0 | 63.0 |
| Net earnings | **29.4** | 24.0 | 32.6 | 23.1 | 26.0 |
| Net earnings per share (cents) (2) | **45** | 37 | 50 | 36 | 40 |
| Investments and assets ($ million) | | | | | |
| Investments in property, plant and equipment | **14.8** | 36.0 | 38.9 | 24.3 | 44.8 |
| Total assets | **417.0** | 441.6 | 387.4 | 370.4 | 367.6 |
| Financial position | | | | | |
| Total debt to equity (3) | **0.0%** | 8.4% | 6.9% | 13.9% | 21.3% |
| Net return on opening equity | **9.1%** | 8.8% | 13.3% | 10.4% | 13.8% |
| Return on opening invested capital (4) | **11.6%** | 10.0% | 14.8% | 11.1% | 15.6% |




(1) EBITDA (earnings before interest, tax, depreciation and amortization) is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings, EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Company's performance. The Company's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

(2) Amounts have been retroactively restated to reflect the impact of a ten-for-one share split, effective May 9, 2005.

(3) Total debt is defined as long-term debt plus bank indebtedness less cash. At December 28, 2008, cash exceeded long-term debt plus bank indebtedness.

(4) Return on opening invested capital is defined as EBIT divided by invested capital, which is defined as the sum of total debt, minority interest, net future income tax liability, shareholders' equity, accumulated goodwill amortization, less long-term income tax receivable.

(5) Net earnings in 2001 and prior years have been restated for goodwill to conform to the current year's presentation.

# REPORT TO SHAREHOLDERS

Winpak recorded a banner year in 2008. Sales of $512.0 million outpaced the prior year by 9.7 percent. Of greater significance, net profit of $29.4 million, or 45 cents per share, surpassed the 2007 levels by 22.5 percent. When considering that the price index for the Company's key raw material purchases hit its highest point in the third quarter and the Canadian dollar registered close to par with the US currency for the majority of 2008, the performance of the Company was a most impressive feat. These noteworthy accomplishments were achieved as a result of the firm's commitment to continually invest in capital projects that enhance and expand its technical capabilities and product offerings. The benefits derived from these initiatives were further realized as the year progressed and will bode well for Winpak's future sales and profit aspirations.

One of the primary contributors propelling Winpak's sales growth was the Company's rigid packaging business, as it constantly forged new in-roads into the custom thermoforming market. Major capital expenditures, customized for three leading North American food corporations, came to fruition in 2007 and continued to prosper in 2008. With the challenges of the startup phase for these projects well in the past, improved manufacturing practices and a new management focus took place at its two facilities in Ontario and Illinois. The profitability of this business unit also grew substantially year-over-year due to the above-stated endeavors.

The operations of Winpak's lidding business were adversely affected in 2007 by the sizeable task of constructing and moving into a new 75,000 square foot building, while further beset with the accompanying issues of closing down its outdated Illinois plant. It may be debated that this business unit took on too daunting an undertaking in such a short period of time. However, the favorable turnaround in 2008 more than endorses the fact that the management team made the right decision. The lidding business continued to grow in sales and profit at an encouraging rate and its overall performance was augmented by the introduction of new products to the health care and pharmaceutical industries. The new Illinois facility and the additional production lines installed at its Quebec plant have yielded the expected efficiency gains.

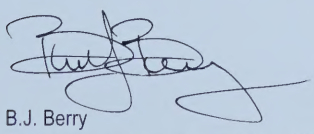
Another commendable turnaround in 2008 was the growing success of the Company's joint venture with the Sojitz Corporation of Japan, to fabricate biaxially oriented nylon film used in the packaging of specialty foods and industrial applications. Although global supply still exceeds demand for these products, the balance is changing. This trend, coupled with enhanced quality and overall efficiency improvements, has provided this business unit with the necessary edge to systematically outperform its competitors.

One of the more exciting ventures in recent years was prompted by the decision in 2006 to manufacture and sell shrink bags. The Company is now successfully producing these bags at its specialty films plant in Georgia under licence from Asahi Kasei Life & Living Corp. of Japan. This proprietary item complements the Winpak modified atmosphere product line and is being jointly promoted by the sales organizations of both business units. To date, the achievements in selling shrink bags have tracked far beyond expectations due to excellent quality and dynamic selling efforts. Further capital expenditures are slated to ensure consistent growth in this promising market segment. The positive response to the Winpak shrink bag has offset a disappointing year for some of this business unit's other materials. The goal ahead will be to boost sales for non-shrink bag products.

Although the packaging machinery operation is the Company's smallest business unit, each year it continues to log favorable results, with the majority of its machines being sold for liquid packaging applications. True to its mandate, efforts are ongoing to promote system sales that tie in both flexible and rigid materials produced at other Winpak business units. As the North American marketplace moves away from cans and bottles to flexible film, in deference to the environment, this should increasingly create new sales opportunities for the Winpak line of packaging equipment.

The modified atmosphere packaging arm continues to be the flagship of the Winpak group. Its sales accomplishments provide the benchmark for all other Company business units. In 2008, the bar was raised again due, in part, to the acquisition of the film packaging business of Walsroder Packaging LLC, a subsidiary of The Dow Chemical Company. Certain assets from this purchase were effectively relocated and consolidated into the Manitoba facility. Also during this same year, the firm installed additional production equipment, completing a 2007 capital project initiative. This business unit's product offerings consistently receive rave reviews, both in North America and, to an ever-increasing extent, in Latin America.

Thanks to a dedicated workforce and management's commitment to growth, it is anticipated that the positive momentum generated in 2008 should prevail within the Winpak organization going forward. With its strong balance sheet, the firm will continue to seek out strategic acquisition opportunities and invest in major capital projects to ensure that the Company remains in the forefront of technology and lean manufacturing practices. With the current uncertain economic environment, there are variables that could affect this progress. However, given the fact that Winpak participates in markets primarily geared to packaging necessary food and health care products, the impact of a global recession on the Company should be significantly less. Winpak remains confident in its ability to grow the business both in sales and profitability.



B.J. Berry
President and Chief Executive Officer
Winnipeg, Canada
February 17, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS



Certain statements made in the following Management's Discussion and Analysis contain forward-looking statements including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Forward-looking statements represent the Company's intentions, plans, expectations and beliefs, and are not guarantees of future performance. Such forward-looking statements represent Winpak's current views based on information as at the date of this report. They involve risks, uncertainties and assumptions and the Company's actual results could differ, which in some cases may be material, from those anticipated in these forward-looking statements. Unless otherwise required by applicable securities law, Winpak disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions investors not to place undue reliance upon forward-looking statements.

## *General Information*

The following discussion and analysis dated February 17, 2009 was prepared by management and should be read in conjunction with the consolidated financial statements prepared in accordance with Canadian GAAP. The following discussion and analysis is presented in U.S. dollars except where otherwise noted. The consolidated financial statements include the accounts of all subsidiaries. All subsidiaries in the United States and American Biaxis Inc. operate with the U.S. dollar as the functional currency, while the Company and all its Canadian subsidiaries, excluding American Biaxis Inc., operate with the Canadian dollar as the functional currency. The Company has filed a separate Management's Discussion and Analysis for its fourth quarter of 2008, dated February 17, 2009, which is available on SEDAR at www.sedar.com.

## *Company Overview*

Winpak is an integrated converter operating in the packaging materials segment. The Company sources manufacturing technology focused on the core competency of sophisticated extrusion and conversion of plastic and aluminum foil materials. The business encompasses three product groups produced in nine manufacturing facilities located in North America. Winpak distributes products to customers primarily in North America for use in the packaging of perishable foods, beverages and in health care applications.

### Selected Financial Information

Millions of U.S. dollars, except per share and margin amounts

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net earnings | **29.4** | 24.0 | 32.6 |
| Earnings from operations | **46.3** | 34.0 | 48.8 |
| Sales | **512.0** | 466.6 | 447.1 |
| Gross profit margin | **25.9%** | 23.6% | 26.1% |
| Net earnings per share (cents) | **45** | 37 | 50 |
| Dividends declared per common share (Canadian cents) | **12** | 10.5 | 6 |
| Total assets | **417.0** | 441.6 | 387.4 |
| Total (cash) debt (Long-term debt plus bank indebtedness less cash) | **(2.8)** | 27.0 | 19.0 |

## Overall Performance

- *Sales* advanced by 9.7 percent or $45.4 million to $512.0 million in 2008. The sizeable increase was primarily related to both higher selling prices and greater sales volumes.

- *Gross profit margins* improved substantially to 25.9 percent from 23.6 percent in 2007. The increase in gross profit was mainly attributable to enhanced manufacturing performance as well as the overall reduction in labor and overhead unit costs resulting from greater volumes and the efficiencies gained as a result of the capital investments of recent years.

- *Net earnings* rose to $29.4 million, an increase of 22.5 percent or $5.4 million when compared to 2007. This significant improvement occurred in spite of the substantial non-recurring gain recognized in 2007 from the enactment of lower future Canadian income tax rates, which enhanced prior year net earnings by $2.8 million versus only $0.3 million in the current year.

- *Cash position* improved by $24.8 million during the year with the majority of the increase occurring in the fourth quarter, further enhancing the Company's already strong financial position to the point where cash exceeded bank indebtedness and long-term debt by $2.8 million at December 28, 2008.

## Highlights

- *Manufacturing performance:* In 2008, manufacturing performance improved immensely in comparison to the prior year. With a less ambitious capital program in the current year, the business units were able to refocus their efforts at reducing manufacturing variances and enhancing manufacturing efficiencies. This was the main driver in the improvement shown in gross profit margins for the year.

- *Raw materials:* For the sixth consecutive year, raw material costs continued to escalate as the Company's raw material index increased by 12.5 percent over the previous year. Fortunately, selling prices kept pace with the dollar value of the cost increase but not to the point of maintaining the gross profit margin percentage with respect to raw material costs.

- *Foreign exchange:* For the sixth straight year, the average exchange rate of the Canadian dollar appreciated against the U.S. dollar. However, by the end of 2008 the U.S. dollar strengthened significantly, resulting in an overall favorable net earnings impact of $0.9 million or 1.5 cents per share in comparison to 2007 results.

- *Capital expenditures:* After two years of capital spending totaling nearly $75 million, investments in capital projects in 2008 were significantly diminished to just short of $15 million. As a result, the considerable start-up and development costs experienced in 2007 were curtailed in 2008 and production management was better able to focus on refining manufacturing processes and improving efficiencies.

- *Financing and investing:* During 2008, Winpak generated $47.3 million in cash flow from operations, which was more than sufficient to fund $14.8 million in capital projects, $7.7 million in dividends, $1.0 million in intangibles related to an acquisition and repay $5.0 million in long-term debt. Including the investment by a minority shareholder in a subsidiary of $2.9 million, the Company was able to increase its cash position during the year by $24.8 million. During 2009, the Company will utilize its cash resources on hand and generate sufficient additional cash resources to fund its investing and financing activities, including the repayment of all the long-term debt, barring any unforeseen circumstances.

## Results of Operations

### *Components of total increase (decrease) in net earnings per share*

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| *Non-recurring items:* lower future income tax rates and property sale | (3.5) | (4.5) | 9.0 |
| *Ongoing operations:* | | | |
| Organic growth | 1.5 | 2.0 | (1.5) |
| Gross profit margins | 7.0 | (8.5) | 6.5 |
| Expense reductions | 1.5 | 0.5 | 1.5 |
| Foreign exchange | 1.5 | (2.5) | (1.5) |
| Total increase (decrease) in net earnings per share (cents) | 8.0 | (13.0) | 14.0 |

### *Ongoing operations:*

Organic growth is the impact on net earnings from increased sales due to volume and excludes the influence of acquisitions, divestitures and foreign exchange. This is a change from prior years where the definition of organic growth had previously included the impact on net earnings from changes in selling prices. Organic growth in 2008 provided 1.5 cents in net earnings per share.

The change in gross profit margins reflected the improvements in manufacturing performance over the prior year, particularly as it related to the significant effect of start-up expenditures included in 2007 results.

Expense reductions reflected a decrease in interest costs and income taxes as well as a small decline in operating expenses, after adjusting for volume increases, the enactment of lower future Canadian income tax rates and the unfavorable impact of foreign exchange included within selling, general and administrative expenses.

Canada is Winpak's second largest market and the location of the majority of its production volume. Cash disbursements in Canadian dollars are largely offset by receipts in Canadian dollars leaving the remaining disbursements exposed to fluctuations in the Canadian / U.S. exchange rate. On average, in 2008, the Canadian dollar strengthened against the U.S. currency by 2.3 percent, which reduced net earnings by 1.0 cent per share. However, due to the significant weakening of the Canadian dollar in the fourth quarter of the year, particularly with regard to its effect on the valuation of inventories, the net foreign exchange translation and transaction differences offset these losses and resulted in an overall net positive effect on net earnings of 1.5 cents per share.

### *Sales*

| | Millions of U.S. dollars | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Volume increase (decrease) | 20.0 | 18.1 | (2.3) |
| Decrease due to divestiture | - | - | (14.2) |
| Price and mix gains (losses) | 23.2 | (3.0) | 20.5 |
| Foreign exchange gain | 2.2 | 4.4 | 6.4 |
| Total increase in sales | 45.4 | 19.5 | 10.4 |

In 2008, sales increased by $45.4 million or 9.7 percent over 2007. Greater volumes accounted for $20.0 million of that increase or a 4.3 percent improvement over the prior year. All product groups contributed to core volume growth in 2008 with the exception of specialty films. Rigid containers experienced robust growth in excess of 15 percent with particular success in new retort packaging for pet food and increased volumes in the single-serve coffee market. Shipments of biaxially oriented nylon, modified atmosphere packaging (MAP) and lidding each grew at more modest rates ranging from 2 to 6 percent. After a decrease in volume in 2007, sales of biaxially oriented nylon films rebounded in 2008 due in part to a reduction in offshore competition. MAP product volumes added $3.4 million to 2008 sales and from the start of the third quarter, included the volumes resulting from the acquisition of the film packaging business of Walsroder Packaging, a subsidiary of The Dow Chemical Company. Sales of lidding materials advanced moderately with particular strength seen in the areas corresponding to rigid container growth. Packaging machinery sales displayed respectable volume growth, although at a less favorable product mix. Meanwhile, sales of specialty films declined as the state of the U.S. economy had a more pronounced effect on this product group, which is less concentrated in the food industry than the Company's other product groups. On an encouraging note in specialty films, the foray into the shrink bag market has been very successful in its first full year, with additional capacity planned for the future due to the favorable market acceptance.

Price and product mix changes resulted in a sizable increase in sales of $23.2 million or 4.9 percent compared to 2007. All business units instituted price increases in order to keep up with the sharp rise in raw material costs that occurred during the year.

The strengthening of the Canadian dollar versus the US dollar increased sales by $2.2 million or approximately 0.5 percent.

### *Gross profit margins*

In comparison to 2007, 2008 gross profit margins increased by $22.6 million due to foreign exchange impacts of $10.7 million, volume advances of $4.9 million, and improvements in manufacturing performance of $7.0 million, or 7.0 cents per share in after-tax dollars. This substantial gain was mainly attributable to the significant reduction in manufacturing variances in 2008, which contributed 5.5 cents in net earnings per share. In 2007, large manufacturing variances emanated from the start-ups associated with the major capital projects of that year, whereas these challenges were largely resolved in 2008. Greater manufacturing efficiencies from lower unit costs for direct labor and overheads accounted for most of the remaining 1.5 cents per share advancement in gross profit margins.

The upswing in margins also occurred in spite of continued raw material cost escalations throughout much of the year. Winpak's raw material index, which represents the weighted cost of a basket of the Company's eight principal raw materials, rose on average by 12.5 percent during 2008. This was the largest increase experienced by the Company in the past three years and represents the sixth consecutive year of raw material cost escalations, with costs increasing by more than 85 percent over the six-year period. Fortunately, the Company was reasonably successful in matching raw material cost changes with selling price adjustments in the past year, having little impact on net earnings. After six successive quarters of raw material cost escalations, a drop in the index was experienced in the fourth quarter of 2008, although it was only marginally lower than the level calculated for the fourth quarter of 2007.

Raw Materials Index

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Average annual index: weighted cost of a basket of Winpak's eight principal raw materials, where base year 2001 = 100 | **174.1** | 154.8 | 149.7 |
| Increase in index compared to prior year | **12.5%** | 3.4% | 4.8% |

### *Expense reductions*

Interest costs declined by over $0.9 million in 2008 compared to the prior year and resulted in an increase of 1.0 cent in net earnings per share. A reduction in the effective interest rate on long-term debt from 5.91 percent in 2007 to 3.77 percent in 2008, along with a repayment of $5.0 million in long-term debt, provided most of the savings. Cost reductions on a net basis in 2008 had no appreciable impact on net earnings. Savings from lower pre-production costs in 2008 were offset by higher freight costs as a result of fuel surcharges. The difference in income tax rates between 2008 and 2007, after adjusting for the non-recurring gains related to the enactment of lower future rates of income tax and the tax effect of foreign exchange gains and losses, resulted in a contribution of approximately 0.5 cents per share in net earnings in the current year.

### *Foreign Exchange*

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Year-end exchange rate of Cdn dollar to U.S. dollar | **1.210** | 0.980 | 1.170 |
| Year-end exchange rate of U.S. dollar to Cdn dollar | **0.826** | 1.020 | 0.855 |
| Change in Cdn dollar vs. U.S. dollar year-end exchange rate compared to the prior year | **(23.5%)** | 16.2% | (0.9%) |
| Average exchange rate of Cdn dollar to U.S. dollar | **1.057** | 1.082 | 1.133 |
| Average exchange rate of U.S. dollar to Cdn dollar | **0.946** | 0.924 | 0.883 |
| Appreciation of Cdn dollar vs. U.S. dollar average exchange rate compared to the prior year | **2.3%** | 4.5% | 6.7% |

Most of the Company's business is conducted in the United States dollar and Winpak utilizes the U.S. currency as the reporting currency. However, approximately 19 percent of sales are denominated in Canadian dollars and approximately 27 percent of costs are incurred in the same currency, resulting in a net outflow of costs in Canadian dollars. Consequently, Winpak records foreign currency differences on transactions and translations.

The net outflow of Canadian dollars exposes Winpak to transaction differences arising from exchange rate fluctuations. The appreciation of the average exchange rate of the Canadian dollar to the U.S. dollar in 2008, 2007 and 2006 reduced net earnings

by 1.0 cent, 1.0 cent and 1.5 cents per share, respectively, compared to the prior year in each case. In addition, Winpak's Canadian companies purchase raw materials in U.S. dollars. The change in exchange rate between the date of purchase of raw materials and eventual sale of the completed inventories generates further transaction exchange differences. In 2008, these transaction differences were significant due to the rapid weakening of the Canadian dollar in the fourth quarter. Winpak estimates that these transaction differences increased net earnings in 2008 by 11.0 cents per share, decreased net earnings in 2007 by 3.5 cents per share, and had no impact in 2006 on net earnings. Translation differences arise when foreign currency monetary assets and liabilities are translated at exchange rates that change over time. The change in spot conversion rate of the Canadian dollar from year to year and against the historical average conversion rate of retained earnings of the Canadian subsidiaries, decreased net earnings in 2008 by 8.5 cents per share, increased net earnings in 2007 by 2.0 cents per share, and had no perceptible impact in 2006 on net earnings.

### *Summary of Quarterly Results*

Thousands of U.S. dollars, except earnings per share (e.p.s.) amounts (cents)

| | 2008 | | | | 2007 | | |
|---|---|---|---|---|---|---|---|
| Quarter ended | Sales | Net earnings | e.p.s. | Quarter ended | Sales | Net earnings | e.p.s. |
| March 30 | 123,346 | 5,951 | 9 | April 1 | 108,760 | 7,504 | 12 |
| June 29 | 127,582 | 7,231 | 11 | July 1 | 114,479 | 5,224 | 8 |
| September 28 | 131,419 | 7,288 | 11 | September 30 | 116,745 | 5,073 | 7 |
| December 28 | 129,690 | 8,882 | 14 | December 30 | 126,638 | 6,157 | 10 |
| | 512,037 | 29,352 | 45 | | 466,622 | 23,958 | 37 |

Various factors affect timing of the Company's earnings during the course of a year. Seasonal factors typically contribute to stronger sales and net earnings in the second and fourth quarters compared to the first and third quarters. Factors influencing seasonal trends are the higher demand for certain food products in advance of the summer season and the greater number of holidays in the fourth quarter. During the third quarter, sales and earnings are typically lower due to reduced order levels and plant maintenance shutdowns scheduled to coincide with the summer. Sudden and substantial changes in the rate of exchange between the U.S. and Canadian dollars from one quarter to another may cause sales and net earnings to vary from the historic trend. Similarly, sudden and significant changes in the cost of raw materials consumed from one quarter to another can be expected to increase or decrease net earnings in a manner that does not conform to the normal pattern. Furthermore, unexpected adverse weather conditions could influence the supply and price of raw materials or customer order levels.

The following specific events influenced the timing of the Company's reported results beyond normal historic trends. The first quarter of 2007 benefited from the combined effects of a temporary dip in raw material costs and lower foreign exchange losses, whereas the first quarter of 2008 followed more normal seasonal patterns with respect to sales and earnings. Sales in the third quarter of 2008 were positively impacted by higher selling prices which were instituted to keep pace with the escalations in raw material costs. The selling price increases also added to fourth quarter sales in 2008, but were offset by the effects of a weakened Canadian dollar and a reduction in volume due to the slowdown in the economy.

## Cash Flow, Liquidity and Capital Resources

At December 28, 2008, Winpak's cash position totaled $19.8 million, an increase of $24.8 million from the prior year-end. This position reflected total funds provided by operations of $47.3 million and a foreign exchange adjustment on cash of $3.1 million less disbursements for investing and financing activities of $25.6 million.

### *Operating activities*

Cash flow provided by operating activities totaled $47.3 million, an increase of $11.4 million from 2007. The cash flow derived from operating activities before change in working capital and payments to defined benefit plans improved by $13.0 million in total from the prior year. Net earnings in 2008 adjusted for two non-cash items, future income taxes and foreign exchange losses on long-term debt, accounted for $12.8 million of the improvement. Net earnings in the current year were $5.4 million greater than in 2007. Future income taxes were $3.7 million higher in 2008 than the previous year due mainly to the significant non-recurring gains recorded in 2007 to recognize the enactment of lower future Canadian income tax rates. The U.S. denominated long-term debt held by Winpak Ltd., whose functional currency is Canadian dollars, generated an additional $3.7 million in foreign exchange losses in 2008 due to the significant strengthening of the U.S. dollar in the fourth quarter. The investment in working capital increased by $11.4 million during the year compared to $8.4 million in the prior year, a further reduction in cash flow of $3.0 million. Accounts receivable posted a sharp incline of $11.2 million in part due to higher sales, including sales into Latin America where payment terms are extended, as well as a slight slowdown in customer receipts as a result of the declining state of the overall economy. Inventories advanced by $3.0 million to support higher sales volumes and the cost of raw materials rose compared to a year ago. Accounts payable and accrued liabilities fell by $4.5 million as raw material and capital expenditure purchases declined in the fourth quarter of 2008 versus the prior year. Income taxes receivable decreased by $6.1

million and income taxes payable increased by $1.7 million in 2008. The over-installed position at the end of 2007 was utilized to reduce 2008 required installments and given that Canadian income tax installments are based on the previous year's taxable income, the higher current year's taxable income resulted in an expansion of the current year liability. Payments were made to defined benefit plans during the year of $5.8 million, $1.4 million less than in 2007. However, with the underperformance of the investments in these plans during the latter part of the year, additional funding of the defined benefit plans over 2008 levels may be necessary in 2009.

### *Investing activities*

Investments amounted to $15.8 million, which consisted of purchases of plant and equipment of $14.8 million and intangible assets of $1.0 million. The investment in capital assets was substantially curtailed from the nearly $75 million spent over the past two years. With less resources devoted to capital installations and start-ups in 2008, production management was better able to focus on refining manufacturing processes and improving efficiencies. The largest capital project undertaken in 2008 was the installation of a second shrink bag extrusion line along with auxiliary equipment, as this new product venture has been very successful in achieving market acceptance. In addition, a number of packaging machines were built and placed with customers as part of systems that combine packaging materials. Over the long term, Winpak's expenditures for equipment enhancements have averaged approximately 2 percent of sales. The investment in intangible assets of $1.0 million arose on the June 30, 2008 acquisition of the film packaging business of Walsroder Packaging LLC, a subsidiary of The Dow Chemical Company, and represented both customer-related and marketing-related intangibles.

### *Financing activities*

Financing activities totaled $9.8 million in 2008 and consisted of long-term debt repayment of $5.0 million and dividends of $7.7 million, net of an investment of $2.9 million by a minority shareholder in a subsidiary. The quarterly dividends were paid at the rate of 3.0 Canadian cents per share which, based on the December 28, 2008 closing share price of CA$6.90, provides a dividend yield of 1.7 percent.

### *Resources*

Investments to drive growth can be sizeable, requiring substantial financial resources. A range of funding alternatives is available including cash on hand, cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. Under the terms of bank credit facilities currently in place, $17 million of long-term debt is revolving, although the Company retains the right to repay, without penalty, amounts of revolving term-debt as deemed appropriate. The Company has determined that current credit facilities of $68 million, including unsecured term-debt lines of $20 million and operating lines of $48 million, are adequate. Of the total facilities, $48 million was unused as at December 28, 2008. The Company believes additional credit can be arranged from banks and other major lending institutions as the need arises. Winpak has remained well within all debt covenants and foresees no change in its ability to meet covenants in 2009. The Company believes that all 2009 requirements for capital expenditures, working capital and debt repayments can be financed from cash resources, cash provided by operating activities and unused credit facilities.

At December 28, 2008, the Company's cash exceeded its total debt, consisting of $17 million in long-term debt, by $2.8 million. Winpak expects to repay all of the long-term debt outstanding in 2009 unless unexpected circumstances occur. The low level of outstanding debt and an informal investment grade credit rating allow the Company to enjoy relatively low interest rates on debt incurred.

## Risks and Financial Instruments

The Company recognizes that net earnings are exposed to changes in market interest rates, foreign exchange rates, prices of raw materials and risks regarding the financial condition of customers and financial counter-parties. These market conditions are regularly monitored and actions are taken, when appropriate, according to Winpak's policies established for the purpose. Despite the methods employed to manage these risks, future fluctuations in interest rates, exchange rates, raw material costs and counter-party financial condition can be expected to impact net earnings.

The Company may enter into derivative contracts or fixed-rate debt to minimize the risk associated with interest rate fluctuations. In addition, Winpak may employ hedging programs to minimize foreign exchange risks associated with changes in the value of the Canadian dollar relative to the U.S. dollar. To the extent possible, the Company maximizes natural currency hedging by matching inflows from sales in either currency with outflows of costs and expenses denominated in the same currency. A portion of the remaining exposure to fluctuations in exchange rates may be mitigated with forward and option contracts.

Winpak's policy regarding interest expense is to fix interest rates on between one- and two-thirds of long-term debt outstanding. However, in 2008, the Company elected to leave all long-term debt at a floating rate due to the relatively low level of debt outstanding. As a result, net earnings have little exposure to changes in interest rates. Consequently, no debt outstanding at the

close of the year carried fixed interest rates. No interest rate swap instruments were entered into during 2008, and none are outstanding as at December 28, 2008.

With respect to foreign exchange risk, the Company's foreign exchange policy requires that between 50 and 80 percent of the Company's net requirement of Canadian dollars for the ensuing 9 to 15 months will be hedged at all times with forward or zero-cost option contracts. Purchases of foreign exchange products for the purpose of speculation are not permitted. Transactions are only conducted with certain approved financial institutions.

Fluctuations in foreign exchange rates represent a material exposure for the Company's financial results. Hedging programs employed may mitigate a portion of exposures to short-term fluctuations in foreign currency exchange rates. However, the Company's financial results over the long term will inevitably be affected by sizeable changes in the value of the Canadian dollar relative to the U.S. dollar. Winpak estimates that each time the exchange rate strengthens or weakens by one Canadian cent against the U.S. dollar, net earnings will decrease or increase, respectively, by approximately one-half of a U.S. cent per share. In addition, while the Company's U.S. dollar monetary liabilities (including long-term debt) in Canada continue to exceed U.S. dollar monetary assets in Canada, a strengthening or weakening in the exchange rate will generate a foreign exchange translation gain or loss, respectively.

During 2008, certain foreign currency forward contracts matured and with the depreciation of the Canadian dollar, the Company realized pre-tax exchange losses of $0.7 million. As at December 28, 2008, the Company had foreign currency forward contracts outstanding with a notional amount of $16.0 million and recorded an unrealized foreign exchange loss of $1.1 million in other comprehensive income based on the year-end Canadian-U.S. dollar exchange rate of 1.21.

The Company monitors the development of a derivatives market based in London, England, which trades in a limited number of resins. To date, Winpak has not participated in this or any other derivatives market for raw materials. Winpak is not aware of any instrument that fully mitigates fluctuations in raw material costs over the long term. To manage this risk, Winpak has entered into formal selling price/indexing agreements with certain customers whereby changes in raw material prices are reflected in selling price adjustments, albeit with a slight time lag. For all other customers, the Company responds to changes in raw material costs by adjusting selling prices on a customer-by-customer basis. However, market conditions can have an impact on these price adjustments such that the combined impact of selling price adjustments and changes in raw material costs can be significant to Winpak's net earnings.

Credit risk arises from cash held with banks, derivative financial instruments (foreign exchange forward and option contracts), as well as credit exposure to customers, including outstanding accounts receivable. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases, insures accounts receivable balances against credit losses. Nonetheless, unexpected deterioration in the financial condition of a counterparty can have a negative impact on the Company's net earnings in the case of default.

The Company enters into contractual obligations in the normal course of business operations. These obligations, as at December 28, 2008, are summarized below.

| Contractual Obligations | Payment due, by period (thousands of U.S. dollars) | | | | |
|---|---|---|---|---|---|
| | Total | 1 year | 2 - 3 years | 4 - 5 years | After 5 years |
| Long-term debt | 17,000 | - | - | - | 17,000 |
| Operating leases | 6,145 | 1,824 | 2,453 | 1,147 | 721 |
| Purchase obligations | 1,314 | 1,314 | - | - | - |
| Total contractual obligations | 24,459 | 3,138 | 2,453 | 1,147 | 17,721 |

## Accounting Policy Changes

As described more fully in note 4 to the consolidated financial statements, the Company will adopt new accounting standards for goodwill, intangible assets and financial statement concepts effective with the interim and annual periods beginning December 29, 2008. Management expects that these standards will have no significant impact on Winpak's financial statement disclosures and no effect on the Company's consolidated financial results.

In February 2008, the Canadian Accounting Standards Board confirmed that Publicly Accountable Enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition from Canadian generally accepted accounting principles (GAAP) to IFRS will be applicable for the Company's first quarter of 2011, at which time the Company will prepare both its fiscal 2011 and fiscal

2010 comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes, disclosure controls, internal controls over financial reporting and information systems.

The Company formally commenced its IFRS conversion project in the second quarter of 2008 and has engaged the services of an external advisor with IFRS expertise to work with management. Regular reporting is provided to the Company's senior management and Audit Committee of the Board of Directors. The Company's conversion project consists of three phases: diagnostic assessment, design and development, and implementation. To date, the initial diagnostic assessment phase of the project has been completed and a detailed IFRS implementation plan has been developed for fiscal 2009. A high-level review of the major differences between Canadian GAAP and current IFRS has been undertaken and at this time, the Company has determined that the differences with the highest potential impact to the Company's accounting policies are related to: property, plant and equipment; financial instruments and hedges; impairments; employee defined benefit plans; income taxes; financial statement disclosures; as well as the initial adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS. The potential impact of these changes on the Company's future financial position and results of operations has yet to be determined as accounting policy choices under IFRS are subject to a number of accounting alternatives which still have to be evaluated by the Company. To date, the project leaders have received training with respect to IFRS through attendance at seminars and through working with various specialists from the external advisory firm. Winpak will continue to invest in training and external advisor resources throughout the transition to facilitate a timely and successful conversion.



## Looking Forward

Much has changed in the fourth quarter in the overall economy that will impact the Company in the ensuing year. If the weakening of the Canadian dollar exhibited in the fourth quarter of 2008 is maintained at the same level throughout 2009, Winpak's results going forward will be favorably impacted as the Company's costs denominated in Canadian funds exceed the Company's Canadian dollar sales. The sharp decline in commodity prices, particularly in the case of natural gas, petroleum, and aluminum, has resulted in decreases in raw material costs after six successive years of increases. Just over 40 percent of the Company's sales are subject to formal selling price-indexing agreements, whereby selling prices are adjusted as raw material prices change, albeit with a time lag. However, the remaining portion of the customer base, although still subject to selling price adjustments, has not kept up with the more than 85 percent increase in raw material costs that has transpired over the last six years. As a result, as raw material costs decline, margins that have eroded in recent years should experience some recovery, as this portion of the customer base should not expect to benefit to the same degree from these raw material cost decreases. The overall state of the North American and global economies is also of concern to the Company. Many businesses are experiencing a reduction in demand for their products and certainly Winpak is not immune from this as evidenced by the 4.0 percent curtailment in fourth quarter volumes. Nonetheless, as approximately 90 percent of the Company's sales are into the food and health care markets, where demand is fairly inelastic to economic downturns, the impact of the economic slump on Winpak should be considerably less than on companies in other industries. The management of the Company, however, must still be mindful of any credit concerns with customers that could arise in this economic environment, although Winpak believes that its processes and procedures in this area should minimize this risk.

In recent years leading up to the current year, the Company has invested heavily in property, plant and equipment to maintain and advance the Company's technological strengths. This included adding new capacity for high-barrier films, shrink bags, custom thermoforming and lidding. Though most of these projects were completed in 2007, there still remains unused extrusion capacity related to these additions of well over $50 million in sales going forward at current selling prices. This provides a strong foundation from which to build upon for the future. In 2009, the capital program will focus on adding shrink bag capacity as well as furthering thermoforming capabilities in addition to other equipment enhancements directed at improving efficiencies or extending the life of current equipment. In this regard, the Company anticipates doubling its spending on capital projects from the very modest level of just under $15 million in 2008 in conjunction with retiring its remaining long-term debt obligations. Furthermore, due to the Company's strong financial position with current cash resources outstripping short-term and long-term debt, Winpak is very well placed to respond to acquisition opportunities that may arise which enhance shareholder value and further strengthen the Company's future outlook.

## Critical Accounting Estimates

The Company believes the following accounting estimates are critical to determining and understanding the operating results and the financial position of the Company.

*Allowance for doubtful accounts.* The Company estimates allowances for potential losses resulting from the inability of customers to make required payments of accounts receivable. Additional allowances may be required if the financial condition of any customer deteriorates.

*Allowance for inventory obsolescence.* The Company estimates allowances for potential losses resulting from inventory becoming obsolete and that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change.

*Impairment of long-lived assets.* On an ongoing basis, the Company estimates the useful life of long-lived assets such as plant, equipment and intangible assets. The net carrying value of these assets is determined by providing depreciation and amortization based on the estimated useful life of each asset. The Company periodically reviews these assets for impairment whenever certain events or changes in circumstances indicate that the net carrying value may not be recoverable, based upon future net cash flows directly associated with the use and possible disposal of the asset. The amount of impairment, if any, is measured by deducting the fair value of the asset from its net carrying value and charged to depreciation or amortization expense. Goodwill is reviewed for possible impairment at least annually. Assumptions and projections used in the determination of possible impairment losses, such as future cash flows, may affect the carrying value of goodwill and require an impairment expense.

*Contingencies and litigation.* On an ongoing basis, the Company assesses the potential liability regarding any lawsuit or claim brought against the Company. In assessing probable losses, the amount of possible insurance recoveries will be projected. The Company accrues a liability when a loss becomes probable and the net amount of the loss can reasonably be estimated. Due to the inherent uncertainties relating to the eventual outcome of litigation and potential insurance recovery, certain matters could ultimately be resolved for amounts materially different to provisions or disclosures previously made by the Company.

*Pension and other post-retirement benefits.* Accounting for defined benefit pensions and other post-retirement benefits requires the use of actuarial assumptions. These assumptions include the discount rate, expected rate of return on plan assets, rate of compensation increase and health care costs. These assumptions depend on underlying factors such as economic conditions, government regulations, investment performance, employee demographics and mortality rates. These assumptions could change in the future and may result in material adjustments to pension and employment plan expenses. Changes in financial market returns and interest rates may result in revisions to the funding requirements of the Company's defined benefit pension plans.

*Income taxes.* The future income tax assets and liabilities are measured using the income tax rates that are expected to apply upon realization or settlement. They are also determined on the basis of management's best estimate of the period over which they will be realized or settled. Future income tax assets are realized to the extent that the realization of benefits is considered more likely than not. In the event that the actual outcome differs from management's assumptions and estimates, the carrying amounts may be adjusted. Management believes that estimates employed are reasonable and reflect the probable outcome of known tax contingencies.

## Disclosure Controls and Internal Controls

### *Disclosure Controls*

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on management's evaluation of the design and effectiveness of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 28, 2008 to provide reasonable assurance that the information being disclosed is recorded, summarized and reported as required.

### *Internal Controls Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Internal control systems, no matter how well designed, have inherent limitations and therefore can only provide reasonable assurance as to the effectiveness of internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Management used the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as the control framework in designing its internal controls over financial reporting. Based on management's design and testing of the effectiveness of the Company's internal controls over financial reporting, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed and operating effectively as of December 28, 2008 to provide reasonable assurance that the financial information being reported is materially accurate. During the fourth quarter ended December 28, 2008, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## Other

Additional information relating to the Company is available on SEDAR at www.sedar.com, including the Annual Information Form dated February 17, 2009.

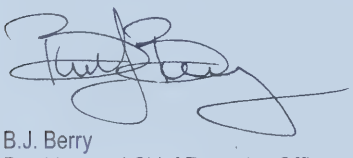
## Management's Report to the Shareholders

The accompanying consolidated financial statements, management's discussion and analysis (MD&A) and other information in the Annual Report are the responsibility of management. The financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these statements in accordance with Canadian generally accepted accounting principles. The MD&A and financial information contained in this Annual Report are consistent with the financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being reported, management has developed and maintains a system of internal controls. An integral part of the system is the requirement that employees maintain the highest standard of ethics in their activities. Business reviews and internal audits are performed by corporate executives and an internal audit team to evaluate internal controls, systems and procedures.

The Board of Directors, acting through the Audit Committee composed solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and MD&A, and in the financial control of operations. The Audit Committee recommends to the shareholders the appointment of the independent auditors. The Audit Committee meets regularly with financial management and the independent auditors to discuss internal controls, auditing matters and financial reporting issues and presents its findings to the Board. The Audit Committee reviews the consolidated financial statements, MD&A and material financial announcements with management and the external auditors prior to submission to the Board for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the independent external auditors, PricewaterhouseCoopers LLP, whose report follows.



B.J. Berry
President and Chief Executive Officer
Winnipeg, Canada
February 17, 2009

K.P. Kuchma
Vice President and Chief Financial Officer
Winnipeg, Canada
February 17, 2009

## Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Winpak Ltd. as at December 28, 2008 and December 30, 2007 and the consolidated statements of earnings and retained earnings, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 28, 2008 and December 30, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Canada
February 17, 2009

# CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 28, 2008 and December 30, 2007
*(thousands of U.S. dollars, except per share amounts)*

| | 2008 | 2007 |
|---|---|---|
| Sales | 512,037 | 466,622 |
| Cost of sales | 379,196 | 356,420 |
| Gross profit | 132,841 | 110,202 |
| Expenses | | |
| Selling, general and administrative (note 5) | 75,062 | 65,313 |
| Research and technical | 10,684 | 9,721 |
| Pre-production | 823 | 1,179 |
| **Earnings from operations** | 46,272 | 33,989 |
| Interest (note 10) | 1,131 | 2,044 |
| Earnings before income taxes and minority interest | 45,141 | 31,945 |
| Provision for income taxes (note 11) | 15,725 | 8,061 |
| Minority interest | 64 | (74) |
| **Net earnings** | 29,352 | 23,958 |
| **Retained earnings, beginning of year** | | |
| As previously reported | 228,470 | 211,139 |
| Change in accounting policy - (note 2 (c)) | (492) | - |
| Restated | 227,978 | 211,139 |
| Net earnings | 29,352 | 23,958 |
| Dividends declared | (7,340) | (6,627) |
| **Retained earnings, end of year** | 249,990 | 228,470 |
| **Basic and fully diluted earnings per share (cents)** | 45 | 37 |
| Average number of shares outstanding (000's) | 65,000 | 65,000 |

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 28, 2008 and December 30, 2007
*(thousands of U.S. dollars)*

| | 2008 | 2007 |
|---|---|---|
| **Net earnings** | 29,352 | 23,958 |
| Unrealized (losses) gains on translation of financial statements of operations with CDN dollar functional currency to US dollar reporting currency | (33,663) | 31,442 |
| Unrealized (losses) gains on derivatives designated as cash flow hedges, net of income tax of $(615) (2007 - $376) | (1,140) | 699 |
| Realized losses (gains) on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax of $238 (2007 - $(335)) | 442 | (623) |
| **Other comprehensive (loss) income - net of income tax (note 14)** | (34,361) | 31,518 |
| **Comprehensive income** | (5,009) | 55,476 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

December 28, 2008 and December 30, 2007

*(thousands of U.S. dollars)*

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash | 19,796 | - |
| Accounts receivable (note 15) | 63,175 | 57,308 |
| Income taxes receivable | - | 6,292 |
| Inventory (note 6) | 68,117 | 74,742 |
| Prepaid expenses | 2,060 | 1,945 |
| Future income taxes (note 11) | 3,363 | 2,702 |
| | 156,511 | 142,989 |
| **Property, plant and equipment (note 7)** | 227,180 | 263,328 |
| **Other assets (note 8)** | 11,259 | 10,739 |
| **Intangible assets (note 9)** | 5,983 | 6,690 |
| **Goodwill (note 9)** | 16,082 | 17,854 |
| | 417,015 | 441,600 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities:** | | |
| Bank indebtedness (unsecured) | - | 5,037 |
| Accounts payable and accrued liabilities | 33,298 | 38,061 |
| Income taxes payable | 2,017 | - |
| | 35,315 | 43,098 |
| **Long-term debt (note 10)** | 17,000 | 22,000 |
| **Deferred credits** | 10,860 | 12,603 |
| **Future income taxes (note 11)** | 28,390 | 28,640 |
| **Postretirement benefits (note 12)** | 1,624 | 1,596 |
| | 93,189 | 107,937 |
| **Minority interest** | 14,069 | 11,065 |
| **Shareholders' equity:** | | |
| Share capital (note 13) | 29,195 | 29,195 |
| Retained earnings | 249,990 | 228,470 |
| Accumulated other comprehensive income (note 14) | 30,572 | 64,933 |
| | 280,562 | 293,403 |
| | 309,757 | 322,598 |
| | 417,015 | 441,600 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 28, 2008 and December 30, 2007

*(thousands of U.S. dollars)*

| | 2008 | 2007 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities:** | | |
| Net earnings | 29,352 | 23,958 |
| Items not involving cash: | | |
| Depreciation | 23,685 | 22,121 |
| Amortization - intangible assets | 1,722 | 2,017 |
| Defined benefit plan costs | 2,693 | 3,254 |
| Future income taxes | 3,411 | (274) |
| Foreign exchange loss on long-term debt | 4,015 | 328 |
| Minority interest | 64 | (74) |
| Other | (495) | 142 |
| Cash flow from operating activities before the following | 64,447 | 51,472 |
| Change in working capital: | | |
| Accounts receivable | (11,166) | 540 |
| Income taxes receivable | 6,050 | (4,318) |
| Inventory | (3,031) | 2,442 |
| Prepaid expenses | (410) | 118 |
| Accounts payable and accrued liabilities | (4,471) | (7,175) |
| Income taxes payable | 1,669 | - |
| Defined benefit plan payments | (5,815) | (7,210) |
| | 47,273 | 35,869 |
| **Investing activities:** | | |
| Acquisition of property, plant and equipment | (14,812) | (35,957) |
| Acquisition of intangible assets | (1,015) | - |
| | (15,827) | (35,957) |
| **Financing activities:** | | |
| Repayments of long-term debt | (5,000) | (17,000) |
| Proceeds from long-term debt | - | 17,000 |
| Dividends paid | (7,716) | (5,471) |
| Investment by minority shareholder in subsidiary | 2,940 | - |
| | (9,776) | (5,471) |
| Foreign exchange translation adjustment on cash | 3,163 | (2,472) |
| **Change in cash position** | 24,833 | (8,031) |
| **(Bank indebtedness) cash, beginning of year** | (5,037) | 2,994 |
| **Cash (bank indebtedness), end of year** | 19,796 | (5,037) |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest expense | 1,651 | 3,028 |
| Income tax expense | 3,895 | 9,855 |

See accompanying notes to consolidated financial statements.

(thousands of U.S. dollars, unless otherwise indicated)

## General:

Winpak Ltd. is incorporated under the Canada Business Corporations Act. The Company manufactures and distributes high-quality packaging materials and related packaging machines. The Company's products are used primarily for the packaging of perishable foods, beverages and in health care applications.

## 1. Basis of presentation:

The consolidated financial statements are expressed in U.S. dollars and prepared in accordance with Canadian generally accepted accounting principles (GAAP). The fiscal year of the Company ends on the last Sunday prior to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration, but includes a 53rd week every 5 to 6 years. The 2008 and 2007 fiscal years comprised 52 weeks.

## 2. Accounting policy changes:

Effective December 31, 2007, the Company adopted the following new Canadian Institute of Chartered Accountants (CICA) accounting standards.

(a) *Section 3862 – Financial Instruments – Disclosures and Presentation and Section 3863 – Financial Instruments – Presentation:*
Section 3862 describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments – Disclosure and Presentation (notes 15 and 16).

(b) *Section 1535 – Capital Disclosures:*
This section establishes standards for disclosing information about a Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital and whether the Company has complied with externally imposed capital requirements (note 17).

The aforementioned standards have no impact on the classification or valuation of the consolidated financial statements.

(c) *Section 3031 – Inventories:*
This section, which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present state. Companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write-downs if the finished goods in which they will be utilized are expected to be sold at or above cost. The standard requires disclosing, in the current period, the write-down amount recognized as an expense and the amount recognized as a reversal of previous write-downs (note 6).

The Company adopted Section 3031 effective December 31, 2007 and restated 2008 opening retained earnings. As a result of this change, inventory was reduced by $746, current future income tax assets were increased by $254 and retained earnings were reduced by $492. In accordance with the requirement of the section comparative year amounts have not been restated.

## 3. Significant accounting policies:

(a) *Principles of consolidation:*
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as well as the majority-owned subsidiary American Biaxis Inc. All inter-company balances and transactions have been eliminated.

(b) *Revenue recognition:*
Sales are recognized when the risks and rewards of ownership have transferred to the customer, which is generally considered to have occurred as products are shipped. Customer volume rebates and cash discounts are accrued at the time of sale and recorded as a reduction of sales.

(c) *Inventory:*
Inventory is stated at the lower of cost (first-in, first-out method) and net realizable value (see note 2 (c)).

(d) *Property, plant and equipment:*
Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, commencing the date the assets are transferred into commercial production, as follows:

| | | | | | |
|---|---|---|---|---|---|
| Buildings | 20 – 40 years | Equipment | 4 – 20 years | Packaging machines | 3 – 5 years |

Property, plant and equipment are reviewed for impairment when certain events or changes in circumstances indicate that the net carrying value may not be recoverable, based upon undiscounted future net cash flows directly associated with the use and possible disposal of the asset. The amount of the impairment, if any, is measured by deducting the fair value of the asset from its net carrying value and is charged to depreciation expense.

(e) *Pre-production costs:*
Pre-production costs relating to installations of major new equipment are expensed in the period in which incurred.

(f) *Goodwill:*
The excess acquisition cost over the underlying value of the net assets, including intangible assets, at the date of acquisition is recorded as goodwill. Goodwill is subject to annual impairment tests and written down from carrying value to fair value if a decline in value is considered to have occurred based upon expected discounted cash flows of the respective subsidiary.

(g) *Intangible assets:*
Intangible assets are recorded at the discounted value of future cash flows of the assets at the date of acquisition. Amortization is computed using the straight-line method over the estimated useful lives of the assets, as follows:

| | | | | | |
|---|---|---|---|---|---|
| Patents | 8 – 17 years | Customer-related | 10 years | Marketing-related | 2 – 10 years |

The carrying values of intangible assets are tested for impairment when events or circumstances indicate that carrying amounts may not be recoverable. When such a situation occurs, the expected undiscounted cash flows over the remaining useful lives of the assets are compared to their carrying values. Intangible assets will be written down to their fair values by a charge to amortization expense if declines in carrying values are identified.

(h) *Research and technical costs:*
Research and technical costs are expensed in the period in which the costs are incurred. Related tax credits are recorded to reduce these costs when it is determined there is reasonable assurance the tax claims will be realized.

(i) *Deferred credits:*
Investment tax credits for plant and equipment are amortized on a straight-line basis over the estimated useful life of the related asset.

(j) *Employee benefit plans:*
The Company maintains five funded non-contributory defined benefit pension plans in Canada and the U.S. and one funded non-contributory supplementary income postretirement plan for certain Canadian-based executives. A market discount rate is used to measure the benefit obligations. The expected return on pension plan assets is calculated on the fair value of the assets as of the year-end date. The cost of these non-contributory defined benefit pension plans is actuarially determined using the projected benefits method prorated on years of employee service, final average salary levels during specified years of employment, retirement ages of employees and other actuarial factors, together with the expected rate of return on pension plan assets. Current service costs, interest costs on the benefit obligation, curtailment and settlement costs are charged to earnings as they accrue. Past service costs, plan amendments, changes in assumptions, the net transitional asset amount and the cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or the fair value of plan assets are amortized to earnings on a straight-line basis over the expected average remaining service lives (10-20 years) of active plan members. The Company's funding policy is in compliance with statutory regulations and amounts funded are deductible for income tax purposes.

One of the Company's subsidiaries maintains one unfunded contributory defined benefit postretirement plan for health care benefits for a limited group of U.S. individuals. A market discount rate is used to measure the benefit obligation. The cost of the plan is actuarially determined using the per capita claims cost method. Current service costs and interest costs on the benefit obligation are charged to earnings as they accrue. Past service costs, plan amendments, changes in assumptions and the

cumulative unrecognized net actuarial gains and losses are amortized to earnings on a straight-line basis over the expected average future lifetime (11 years) of the retirees.

The Company maintains seven defined contribution pension plans in Canada and the U.S. The pension expense for these plans is the annual funding contribution by the Company.

(k) *Income taxes:*
The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the future differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the period in which the rate-change is considered substantively enacted. When necessary, a valuation allowance is recorded to reduce future income tax assets to an amount that is more likely than not to be realized.

(l) *Foreign currency translation:*
Operations with the Canadian dollar as the functional currency are translated using the current rate method under which the assets and liabilities are translated into U.S. dollars at the year-end exchange rate. Sales, costs and expenses are translated at the average rate for the year. The unrealized exchange gains or losses on the net investment in these operations are deferred and included in the accumulated other comprehensive income account in shareholders' equity. The net assets of the U.S. dollar functional currency operations do not qualify as a hedge against the U.S. dollar long-term debt held in Canada. Accordingly, foreign exchange adjustments arising on translation of this debt are included in net earnings.

(m) *Financial instruments:*
The Company initially recognizes all financial assets and liabilities and non-financial derivatives at fair value unless exempted from derivative treatment. Subsequently, financial assets are measured at either amortized cost or fair value depending on the type of instrument and any optional designations by the Company. Financial liabilities are subsequently measured at amortized cost, or at fair value if they are classified as held for trading purposes. Derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. All changes in fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

Under certain conditions, derivatives that are embedded within host financial and non-financial contracts must be separated from the host contract and accounted for separately at fair value. The Company performed a search for embedded derivatives in all contracts entered into after January 1, 2003, its selected transition date, and has determined that all of its embedded derivatives are exempt from fair value accounting.

(n) *Hedge accounting:*
At the inception of a hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, which includes linking all derivatives to specific firm commitments or forecasted transactions. The Company operates principally in Canada and the United States, which gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange rates. The Company enters into foreign currency forward contracts to hedge certain foreign exchange exposures on anticipated sales.

Hedges must be designated as either fair value or cash flow hedges or as a hedge of a net investment in an operation with the Canadian dollar as the functional currency. For a fair value hedge, the gain or loss on the hedging item is recognized in earnings in the period of change together with the offsetting change attributable to the hedged risk. For a cash flow hedge, as well as a hedge of a net investment in an operation with the Canadian dollar as the functional currency, the effective portion of the gain or loss on the hedging item is initially recorded in other comprehensive income and subsequently recognized in earnings (recorded within selling, general and administrative expenses) when the hedged item affects earnings. The ineffective portion of the gain or loss is immediately recognized in earnings.

When a hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income as long as the forecasted transaction may occur and would be recognized in the statement of earnings in the period the hedged transaction impacts earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss in other comprehensive income is immediately transferred to the statement of earnings.

(o) *Comprehensive income:*
Comprehensive income is comprised of net earnings and other comprehensive income – net of income tax and is disclosed in the consolidated statements of comprehensive income. Comprehensive income is the change in a Company's net assets resulting from transactions or events from sources other than the Company's shareholders. Other comprehensive income includes: i) unrealized foreign exchange gains or losses on translation of the financial statements of operations with the Canadian dollar as the functional currency to U.S. dollar reporting currency, ii) unrealized gains or losses on the effective portion of derivatives designated as cash flow hedges, net of income tax, and iii) realized gains or losses on derivatives designated as cash flow hedges when the hedged item affects earnings, net of income tax.

(p) *Stock-based compensation plan:*
The Company maintains a stock-based compensation plan, which provides stock appreciation rights under the President's Incentive Plan. Rights under the plan vest immediately, and are paid in cash during the fourth quarter of the third year or the first quarter of the fourth year after the date of grant based upon the quoted market value of the common shares of the Company on the day prior to the date of payment. Compensation cost is recognized for the value of the rights granted in each year, based on the market value of the common shares of the Company on the date of grant, and is adjusted annually for the change in market value of unexercised rights granted in prior years. Compensation cost recorded for the year under the Plan was $238 (2007 - $20).

(q) *Use of estimates:*
The preparation of financial statements in accordance with GAAP requires management to make estimates including: the estimated useful lives of various assets, assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of certain sales, costs and expenses during the year. Actual results could differ from these estimates.

## 4. Future accounting standards:

The CICA has issued the following handbook section, which applies commencing with the Company's 2009 fiscal year.

*Goodwill, Intangible Assets and Financial Statement Concepts:*
In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. The standard requires retroactive application to prior period financial statements. The Company has completed its initial assessment on the impact of this new standard on its consolidated financial statements. Management expects the standard to have no significant impact on the required financial statement disclosures and no effect on the Company's consolidated financial results.

*International Financial Reporting Standards:*
In January 2006, the CICA Accounting Standards Board (ASB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for Publicly Accountable Enterprises would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented for 2010 on the same basis. In February 2008, the CICA ASB confirmed the effective date of the initial adoption of IFRS.

The Company has completed the initial diagnostic assessment, which involved a high-level review of the major differences between Canadian GAAP and current IFRS. Currently, the Company has determined that the differences with the highest potential impact to the Company's accounting policies are related to: property, plant and equipment, financial instruments and hedges, impairments, employee defined benefit plans, income taxes, financial statement disclosures, as well as the initial adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

The Company has commenced the detailed diagnostic assessment phase of the project and has started to evaluate the accounting policy differences based on management's current understanding of the IFRS. The impact of these changes on the Company's future financial position and results of operations has yet to be determined as accounting policy choices under IFRS are subject to a number of accounting alternatives which have not been evaluated by the Company.

## 5. Selling, general and administrative:

Included within selling, general and administrative expenses are the following amounts:

| | 2008 | 2007 |
|---|---|---|
| Foreign exchange translation losses (gain) | **5,254** | (1,504) |
| Defined benefit plan costs (note 12) | **2,693** | 3,254 |

Foreign exchange translation losses (gains) represent the realized and unrealized foreign exchange differences recognized upon translation of monetary assets and liabilities, including long-term debt. The amounts include realized foreign exchange losses (gains) on cash flow hedges arising from transfers of these amounts from other comprehensive income to net earnings.

## 6. Inventory:

| | 2008 | 2007 |
|---|---|---|
| Raw materials | **23,935** | 27,280 |
| Work-in-process | **12,390** | 11,738 |
| Finished goods | **28,806** | 34,107 |
| Spare parts | **2,986** | 1,617 |
| | **68,117** | 74,742 |

During 2008, the Company recorded write-downs for slow-moving and obsolete inventory of $5,799 and reversals of previously written-down items that were sold to customers of $922.

## 7. Property, plant and equipment:

| | 2008 Cost | Accumulated depreciation | 2008 Net | 2007 Cost | Accumulated depreciation | 2007 Net |
|---|---|---|---|---|---|---|
| Land | **2,707** | **-** | **2,707** | 2,943 | - | 2,943 |
| Buildings | **77,655** | **17,924** | **59,731** | 86,405 | 17,916 | 68,489 |
| Equipment | **318,482** | **156,830** | **161,652** | 346,835 | 163,373 | 183,462 |
| Packaging machines | **29,911** | **26,821** | **3,090** | 35,129 | 31,146 | 3,983 |
| Expansions in progress | **-** | **-** | **-** | 4,451 | - | 4,451 |
| | **428,755** | **201,575** | **227,180** | 475,763 | 212,435 | 263,328 |

## 8. Other assets:

| | 2008 | 2007 |
|---|---|---|
| Defined benefit pension plans (note 12) | **7,863** | 5,998 |
| Other postretirement benefits (note 12) | **2,132** | 2,629 |
| Income tax credits recoverable | **1,264** | 2,112 |
| | **11,259** | 10,739 |

A subsidiary has income tax credits recoverable which are available to reduce provincial income taxes payable in the future. These income tax credits expire if not utilized by 2014, 2015, 2016 and 2017 in the amounts of $1,050, $59, $64 and $91 respectively.

## 9. Intangible assets and goodwill:

| *Intangible assets* | 2008 Cost | Accumulated amortization | 2008 Net | 2007 Cost | Accumulated amortization | 2007 Net |
|---|---|---|---|---|---|---|
| Patents | 4,013 | 3,795 | 218 | 4,013 | 3,638 | 375 |
| Customer-related | 11,996 | 7,156 | 4,840 | 11,115 | 5,960 | 5,155 |
| Marketing-related | 2,718 | 1,793 | 925 | 2,584 | 1,424 | 1,160 |
| | 18,727 | 12,744 | 5,983 | 17,712 | 11,022 | 6,690 |

*Goodwill:* As at December 28, 2008 and December 30, 2007, the Company performed impairment tests on remaining goodwill balances and concluded that no provision for impairment was required. The difference in the carrying value of goodwill year-over-year relates to the change in foreign exchange rates.

## 10. Long-term debt:

Long-term debt consists of a committed unsecured revolving term loan facility with a Canadian bank of $20,000 (2007 – $30,000) which, at the option of the lender, is extendible annually or if not extended would be converted into a five-year, revolving/reducing term facility for any non-extended portion. As at December 28, 2008, $17,000 (2007 – $17,000) of the revolving term loan facility was utilized. The two-year reducing term facility of $5,000 was repaid during the year. The interest rate is floating at the London Inter-Bank Offering Rate (LIBOR) plus 0.50%.

| *Interest is comprised of the following:* | 2008 | 2007 |
|---|---|---|
| Interest on long-term debt | 683 | 1,298 |
| Interest on bank indebtedness | 818 | 1,472 |
| Interest income | (370) | (726) |
| | 1,131 | 2,044 |

The effective average interest rate on long-term debt was 3.77% (2007 – 5.91%).

## 11. Provision for income taxes:

| | 2008 | 2007 |
|---|---|---|
| Current | 12,314 | 8,335 |
| Future | 3,411 | (274) |
| Total provision for income taxes | 15,725 | 8,061 |
| Combined Canadian federal and provincial income tax rate | 31.6% | 34.0% |
| United States income taxed at higher than combined Canadian tax rates | 1.6 | 0.8 |
| Change in substantively enacted Canadian federal/provincial income tax rates | (0.7) | (8.6) |
| Non-taxable foreign exchange losses (gains) | 2.5 | (0.7) |
| Permanent differences and other | (0.2) | (0.3) |
| Effective income tax rate | 34.8% | 25.2% |

Temporary differences that give rise to future income tax assets and liabilities are as follows:

| | | |
|---|---|---|
| Future income tax assets: | | |
| Reserves and accrued liabilities | 3,363 | 2,702 |
| Future income tax liabilities: | | |
| Buildings, equipment and packaging machines | 26,739 | 27,239 |
| Accrued pension asset | 2,737 | 2,454 |
| Long-term debt | 118 | 233 |
| Postretirement benefits | (592) | (582) |
| Intangible assets and goodwill | (612) | (704) |
| | 28,390 | 28,640 |

## 12. Employee benefit plans:

The Company maintains five funded non-contributory defined benefit pension plans, one funded non-contributory supplementary income postretirement plan for certain Canadian-based executives, one unfunded contributory defined benefit postretirement plan for health care benefits for a limited group of U.S. individuals and seven defined contribution pension plans. Effective January 1, 2005, all defined benefit pension plans were frozen with the exception of one, which was frozen effective January 1, 2009. All new Canadian employees are required, and all new U.S. employees have the option, to participate in defined contribution plans upon satisfaction of certain eligibility requirements.

As a result of closing the facility on Laird Drive, Toronto, Ontario in 2005, the Company wound up a defined benefit pension plan and partially wound up another defined benefit pension plan. The Company made the required final cash funding amounts in regard to both of these defined benefit plans during 2008.

*Defined benefit plans*
The Company measures the accrued benefit obligations and fair value of assets for the defined benefit plans as of the year-end date. The most recent actuarial valuations for funding purposes for the various plans were completed as at the following dates: December 31, 2007 for two plans, January 1, 2007 for two plans and October 31, 2005 for one plan. The most recent actuarial valuations for funding purposes for the supplementary income postretirement plan and the postretirement plan for health care benefits were dated January 1, 2006 and January 1, 2007 respectively. The next required actuarial valuations for all of the Company's defined benefit plans are three years from the aforementioned dates.

Total amounts paid by the Company on account of all employee benefit plans, consisting of: defined benefit pension plans, supplementary income postretirement plan, direct payments to beneficiaries for the unfunded postretirement plan and defined contribution plans, amounted to $8,004 (2007 - $9,340).

The following presents the financial position of the Company's defined benefit pension plans and other postretirement benefits, which include the supplementary income plan and the postretirement plan for health care benefits:

| | Defined Benefit Pension Plans | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| ***Change in benefit obligation*** | | | | |
| Benefit obligation, beginning of year | **52,093** | 46,384 | **8,034** | 7,275 |
| Current service cost | **2,139** | 2,575 | **181** | 147 |
| Interest cost | **2,903** | 2,673 | **403** | 412 |
| Actuarial gain | **(6,244)** | (4,303) | **(1,145)** | (712) |
| Benefits paid | **(1,295)** | (1,277) | **(175)** | (164) |
| Partial windup benefits paid | **(4,658)** | - | **-** | - |
| Foreign exchange | **(5,835)** | 6,041 | **(1,164)** | 1,076 |
| Benefit obligation, end of year | **39,103** | 52,093 | **6,134** | 8,034 |
| ***Change in plan assets*** | | | | |
| Fair value of plan assets, beginning of year | **47,266** | 36,528 | **6,597** | 5,279 |
| Actual return on plan assets | **(7,923)** | (169) | **(457)** | (125) |
| Employer contributions | **5,131** | 6,702 | **684** | 508 |
| Benefits paid | **(1,295)** | (1,277) | **(175)** | (164) |
| Partial windup benefits paid | **(4,658)** | - | **-** | - |
| Foreign exchange | **(5,557)** | 5,482 | **(1,280)** | 1,099 |
| Fair value of plan assets, end of year | **32,964** | 47,266 | **5,369** | 6,597 |

| | Defined Benefit Pension Plans | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| ***Funded status*** | | | | |
| Plan assets less than benefit obligation | **(7,248)** | (5,236) | **(1,624)** | (1,437) |
| Plan assets greater than benefit obligation | **1,109** | 409 | **859** | - |
| Net plan assets less than benefit obligation | **(6,139)** | (4,827) | **(765)** | (1,437) |
| Unrecognized net transition amount | **(626)** | (992) | **-** | - |
| Unrecognized prior service cost | **504** | 550 | **1,587** | 2,229 |
| Unamortized actuarial loss (gain) | **14,124** | 11,267 | **(314)** | 241 |
| Accrued asset | **7,863** | 5,998 | **508** | 1,033 |
| ***Amounts recognized in the consolidated balance sheet*** | | | | |
| Accrued asset | **7,863** | 5,998 | **2,132** | 2,629 |
| Accrued liability | **-** | - | **(1,624)** | (1,596) |
| Accrued asset | **7,863** | 5,998 | **508** | 1,033 |
| ***Plans with fair value of assets less than benefit obligation*** | | | | |
| Fair value of plan assets | **26,013** | 43,648 | **-** | 6,597 |
| Benefit obligation | **(33,261)** | (48,884) | **(1,624)** | (8,034) |
| Plan assets less than benefit obligation, end of year | **(7,248)** | (5,236) | **(1,624)** | (1,437) |
| ***Plan assets*** | | | | |
| The following represents the weighted average allocation of plan assets: | | | | |
| *Asset category* | | | | |
| Equity securities | **62%** | 63% | **28%** | 32% |
| Debt securities | **36%** | 37% | **14%** | 18% |
| Cash | **2%** | - | **58%** | 50% |
| Total | **100%** | 100% | **100%** | 100% |
| The following represents the net benefit plan cost of all the plans: | | | | |
| ***Net benefit plan cost*** | | | | |
| Current service cost | **2,139** | 2,575 | **181** | 147 |
| Interest cost on accrued benefit obligation | **2,903** | 2,673 | **403** | 412 |
| Actual loss on plan assets | **7,923** | 169 | **457** | 125 |
| Actuarial gain on accrued benefit obligation | **(6,244)** | (4,303) | **(1,145)** | (712) |
| Benefit plans cost before adjustments to recognize the long-term nature of benefit plans | **6,721** | 1,114 | **(104)** | (28) |
| Shortfall of actual over expected return on plan assets | **(11,213)** | (3,098) | **(669)** | (322) |
| Deferral of amounts arising during the year: | | | | |
| Actuarial gain on accrued benefit obligation | **6,244** | 4,303 | **1,145** | 712 |
| Amortization of previously deferred amounts: | | | | |
| Transitional asset | **(203)** | (199) | **-** | - |
| Prior service cost | **69** | 71 | **270** | 264 |
| Net actuarial loss | **348** | 431 | **85** | 6 |
| Adjustments to recognize the long-term nature of benefit plans | **(4,755)** | 1,508 | **831** | 660 |
| Net benefit plan cost | **1,966** | 2,622 | **727** | 632 |

| | Defined Benefit Pension Plans | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| ***Significant assumptions*** | | | | |
| The following weighted averages were used: | | | | |
| Accrued benefit obligations as of the year-end date: | | | | |
| Discount rate | **6.8%** | 5.8% | **7.0%** | 5.7% |
| Rate of compensation increase | **4.2%** | 4.2% | **-** | - |
| Net benefit plan cost for the year: | | | | |
| Discount rate | **5.8%** | 5.4% | **5.7%** | 5.4% |
| Expected return on plan assets | **7.3%** | 7.3% | **3.5%** | 3.6% |
| Rate of compensation increase | **4.2%** | 4.2% | **-** | - |

The defined benefit pension plans do not invest in the shares of the Company. The expected rate of return on the plan assets is based on historical and projected rates of return for each asset category measured over a four-year time period. The objective of the asset allocation policy is to manage the funded status of the plans at an appropriate level of risk, giving consideration to the security of the assets and the potential volatility of market returns. The long-term rate of return is targeted to exceed the return indicated by a benchmark portfolio by at least 1% annually.

The postretirement benefit plan assumed health care cost trend rate is 8.75% with the rate declining to 5% by 2015. A one-percentage point change in the assumed health care cost trend rate would affect the net benefit plan cost by approximately $6 and the accrued benefit obligation by $100.

*Defined contribution pension plans*
The Company maintains four defined contribution plans for employees in Canada and three savings retirement plans (401(k) Plans) for employees in the United States. The Company's total expense for these plans was $2,237 (2007 - $2,166).

## 13. Share capital:

| Authorized: | Issued and fully paid: |
|---|---|
| Unlimited voting common shares | 65,000,000 voting common shares |

The Company has no stock option plans in place.

## 14. Accumulated other comprehensive income:

The accumulated other comprehensive income account represents the net changes due to foreign exchange rate fluctuations in the net investment in the Canadian dollar functional currency operations and the unrealized (losses) gains on derivatives designated as cash flow hedges.

| | **2008** | 2007 |
|---|---|---|
| Balance, beginning of year | **64,933** | 33,415 |
| Other comprehensive (loss) income | **(34,361)** | 31,518 |
| Balance, end of year | **30,572** | 64,933 |
| The accumulated balances for each component of other comprehensive income, net of income taxes, are comprised of the following: | | |
| Unrealized gains on translation of financial statements of operations with Canadian dollar functional currency to U.S. dollar reporting currency | **31,194** | 64,857 |
| Unrealized (losses) gains on derivatives designated as cash flow hedges | **(622)** | 76 |
| Balance, end of year | **30,572** | 64,933 |

## 15. Financial instruments:

The following presents the carrying value and fair value of the Company's financial instruments and non-financial derivatives:

| | | Carried at Cost/ Amortized Cost | Carried at Fair Value |
|---|---|---|---|
| Assets (Liabilities) | Classification | Carrying / Fair Value | Carrying Value |
| Cash | Held for trading | 19,796 | |
| Accounts receivable | Loans and receivables | 63,175 | |
| Accounts payable and accrued liabilities | Other financial liabilities | (32,342) | |
| Cash flow hedging derivative | Derivatives designated as effective hedges | | (956) |
| Long-term debt | Other financial liabilities | (17,000) | |

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of judgment.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments:

a) Short-term financial instruments approximate their carrying amount due to the relatively short period to maturity. These include: cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities.
b) Long-term debt with a variable interest rate is carried at cost, which reflects fair value as the interest rate is the current market rate available to the Company.
c) Foreign exchange forward contracts, designated as a cash flow hedge, have been determined by valuing those contracts to market against prevailing forward foreign exchange rates as at the reporting date.

## 16. Financial risk management:

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company manages its risks and risk exposures through a combination of derivative financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The Company does not purchase any derivative financial instruments for speculative purposes.

Risk management is primarily the responsibility of the Company's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Company's approved policies, established for that purpose. In addition, as required, these risks are reviewed with the Company's Board of Directors.

*Foreign Exchange Risk*

The Company operates primarily in Canada and the United States. The functional currency of the parent company is CDN dollars and the reporting currency is U.S. dollars. All operations in the United States and American Biaxis Inc. operate with the U.S. dollar as the functional currency, while all Canadian operations, excluding American Biaxis Inc., operate with the CDN dollar as the functional currency. Most of the Company's business is conducted in U.S. dollars. However, approximately 19 percent of sales are invoiced in CDN dollars and approximately 27 percent of costs are incurred in the same currency, resulting in a net outflow of costs in CDN dollars. Consequently, the Company records foreign currency differences on transactions.

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. These foreign exchange gains and losses are recorded in selling, general and administrative expenses. As a result of the Company's U.S. dollar net monetary position within the CDN dollar functional currency operations as at December 28, 2008, a one-cent strengthening / weakening in the year-end foreign exchange rate from CDN dollars to U.S. dollars would have had no impact on net earnings for 2008.

The Company's foreign exchange policy requires that between 50 and 80 percent of the Company's net requirement of CDN dollars for the ensuing 9 to 15 months will be hedged at all times with a combination of cash on hand and forward or zero-cost option foreign exchange contracts. Transactions are only conducted with certain approved Schedule 1 Canadian financial institutions. All foreign exchange contracts are designated as cash flow hedges. Certain foreign currency forward contracts matured during the year and the Company realized pre-tax foreign exchange losses of $680. These foreign exchange losses were recorded in selling, general and administrative expenses. As at December 28, 2008, the Company had foreign currency forward contracts outstanding with a notional amount of $16.0 million U.S. at an average exchange rate of 1.1412 (U.S. to CDN dollars), maturing between January 2009 and November 2009 and the fair value of the notional amount of these contracts was $15.044 million U.S. as of December 28, 2008. An unrealized foreign exchange loss during the year of $1,755 (pre-tax) was recorded in other comprehensive income.

*Interest Rate Risk*

The Company's interest rate risk arises from its floating rate bank indebtedness and long-term debt. The Company's policy regarding interest expense is to fix interest rates on between one-third and two-thirds of long-term debt outstanding. The Company may enter into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. For the current year, the Company elected to have all long-term debt at a floating interest rate due to the relatively low level of debt outstanding. As such, no interest rate swap instruments were entered into during 2008, and none were outstanding as at December 28, 2008. Regarding the December 28, 2008 long-term debt balance of $17.0 million, a 1% increase/decrease in floating interest rates would decrease/increase earnings before tax by $170 annually.

*Commodity Price Risk*

Manufacturing costs for the Company's products are affected by the price of raw materials, namely petroleum-based and natural gas-based plastic resins and aluminum. In order to manage its risk, the Company has entered into selling price-indexing programs with certain customers. Changes in raw material prices for these customers are not immediately reflected in selling price adjustments, there is a slight time lag. For 2008, 41% of sales were to customers with formal selling price-indexing agreements. For all other customers, the Company's preferred practice is to match raw material cost changes with selling price adjustments, albeit with a slight time lag. This matching is not always possible, as customers react to selling price pressures related to raw material cost fluctuations according to conditions pertaining to their markets.

*Credit Risk*

Credit risk arises from cash held with banks, derivative financial instruments (foreign exchange forward and option contracts and interest rate swaps with positive fair values), as well as credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. Management regularly monitors customer credit limits, performs credit reviews and, in certain cases insures accounts receivable balances against credit losses. As at December 28, 2008, 19% of the Company's total accounts receivable balance was insured against credit losses.

The Company's exposure to individual customers is limited and the ten largest customers as at December 28, 2008, on aggregate, accounted for 26% of the Company's total accounts receivable balance.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within selling, general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the earnings statement.

The following table details the aging of the Company's receivables and related allowance for doubtful accounts.

| | 2008 | 2007 |
|---|---|---|
| Current | 45,029 | 39,325 |
| Past due amounts: | | |
| 1 – 60 days | 18,688 | 17,602 |
| Greater than 60 days | 1,121 | 1,919 |
| Less: Allowance for doubtful accounts | (1,663) | (1,538) |
| Total accounts reveivable, net | 63,175 | 57,308 |

*Liquidity Risk*
Investments to drive growth can require significant financial resources. A range of funding alternatives is available to the Company including cash on hand, cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. The low level of outstanding debt and an informal investment grade credit rating allow the Company to enjoy relatively low interest rates. Under the terms of the Company's current bank credit facility in place, the $17 million of long-term debt outstanding is revolving, although the Company retains the right to repay, without penalty, amounts as deemed appropriate. The Company has determined that total current credit facilities of $68 million (unsecured), including operating lines of $48 million and term-debt lines of $20 million, are adequate. Of the total credit facilities, $48 million was unused as at December 28, 2008. The Company has remained within all bank debt covenants during 2008 and foresees no change in its ability to meet these covenants in 2009.

The 2009 requirements for capital expenditures, working capital and debt repayments can be financed from cash resources, cash flow provided by operating activities and unused credit facilities. The Company expects to repay all of the $17 million of long-term debt outstanding in the 2009 fiscal year unless unexpected circumstances occur.

## 17. Capital management:

The Company's objectives in managing capital are to ensure the Company will continue as a going concern and have sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The Company also strives to maintain an optimal capital structure to reduce the overall cost of capital.

In the management of capital, the Company includes bank indebtedness, long-term debt and shareholders' equity. The Board of Directors has established quantitative return on capital criteria for management and year-over-year sustainable earnings growth targets. The Board of Directors also reviews, on a regular basis, the level of dividends paid to the Company's shareholders.

The Company has externally imposed capital requirements as governed through its bank credit facilities. The Company monitors capital on the basis of funded debt to EBITDA (earnings before interest, income taxes, depreciation and amortization) and debt service coverage. Funded debt is defined as the sum of long-term debt and bank indebtedness less cash. The funded debt to EBITDA is calculated as funded debt, as at the financial reporting date, over the twelve-month rolling EBITDA. This ratio is to be maintained under 3.00:1. As at December 28, 2008, the ratio was 0.00:1. Debt service coverage is calculated as a twelve-month rolling earnings from operations over debt service. Debt service is calculated as the sum of one-sixth long-term debt outstanding plus annualized interest expense and dividends. This ratio is to be maintained over 1.50:1. As at December 28, 2008, the ratio was 3.99:1.

There were no changes in the Company's approach to capital management during 2008.

## 18. Segmented information:

The Company operates in one reportable segment being the manufacture and sale of packaging materials. The Company operates principally in Canada and the United States.

The following summary presents key information by geographic segment:

| | United States | | Canada | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Sales | **391,564** | 352,596 | **95,452** | 95,727 | **25,021** | 18,299 | **512,037** | 466,622 |
| Property, plant and equipment | **87,559** | 88,352 | **139,621** | 174,976 | **-** | - | **227,180** | 263,328 |
| Intangible assets | **5,983** | 6,690 | **-** | - | **-** | - | **5,983** | 6,690 |
| Goodwill | **8,485** | 8,485 | **7,597** | 9,369 | **-** | - | **16,082** | 17,854 |

## 19. Commitments and guarantees:

Commitments:
The Company has commitments of $1,314 (2007 – $2,898) with respect to equipment purchases.

The Company rents premises and equipment under operating leases that expire at various dates until April 30, 2015. The aggregate minimum rentals payable for these leases are as follows:

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Amount | 1,824 | 1,628 | 825 | 603 | 544 | 721 | 6,145 |

Guarantees:
*Directors and officers:*
The Company and its subsidiaries have entered into indemnification agreements with their respective directors and officers to indemnify them, to the extent permitted by law, against any and all amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit, or any judicial, administrative or investigative proceeding involving the directors and officers. Indemnification claims will be subject to any statutory or other legal limitation period. The Company has purchased directors' and officers' liability insurance to mitigate losses from any such claims.

*Leased real property:*
The Company and its subsidiaries enter into operating leases in the ordinary course of business for real property. In certain instances, the Company and its subsidiaries have indemnified the landlord from any obligations that may arise from any occurrences of personal bodily injury, loss of life and property damages. The Company's property and liability insurance coverage mitigates losses from any such claims.

*Pension plan:*
The Company has indemnified the Manitoba Pension Commission from any and all claims that may be made by any beneficiary under a certain defined benefit pension plan. The indemnity relates to the transfer of a portion of the surplus in the respective pension plan to a non-contributory supplementary income plan.

Given the nature of the aforementioned indemnification agreements, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company believes the likelihood of a material payment pursuant to these indemnification agreements is remote. No amounts have been recorded in the consolidated financial statements with respect to these indemnification agreements.

## 20. Related party transactions:

The Company had sales of $99 (2007 - $0) and purchases of $3,871 (2007 - $483) with its majority shareholder company. Accounts receivable and accounts payable include amounts of $60 (2007 - $7) and $211 (2007 - $28) respectively with the majority shareholder company. These transactions were completed at market values with normal payment terms.

## 21. Contingencies:

In the normal course of business activities, the Company may be subject to various legal actions. Management contests these actions and believes resolution of the actions will not have a material adverse impact on the Company's financial condition.

# CORPORATE INFORMATION

## Annual Meeting
The Annual Meeting of Shareholders will be held on Wednesday, April 22, 2009 at 4:30 p.m.
at The National Club, Toronto, Canada

## Listing
Winpak Ltd. shares are listed WPK on the Toronto Stock Exchange

## Transfer Agent
Computershare Investor Services Inc.

## Annual Information Form
The most recent version of the Annual Information Form for Winpak Ltd.
is available by contacting Winpak's Corporate Office, info@winpak.com
100 Saulteaux Crescent, Winnipeg, Canada R3J 3T3

## Board of Directors
Chairman, *A. Aarnio-Wihuri (2)*, Helsinki, Finland; Chairman, Wihuri Oy
Vice Chairman, *A.E. Lindroos (1)*, Helsinki, Finland
*J.M. Hellgren*, Helsinki, Finland; President and Chief Executive Officer, Wihuri Oy
*T.P. Fagernas (2)*, Helsinki, Finland
*J.R. Lavery (2)*, Winnipeg, Canada
*D.R.W. Chatterley (1)*, Winnipeg, Canada
*J.S. Pollard (1)*, Winnipeg, Canada; Co-Chief Executive Officer, Pollard Banknote Limited

*(1) Member of the Audit Committee*
*(2) Member of the Compensation, Governance and Nominating Committee*

## Executive Committee
The Executive Committee, in consultation with the Board of Directors, establishes the objectives and the long-term direction of the Company. The Committee meets regularly throughout the year to review progress towards achievement of the Company's goals and to implement policies and procedures directed at optimizing performance.

*B.J. Berry*, President and Chief Executive Officer, Winpak Ltd.
*K.M. Byers*, President, Winpak Films Inc.
*D.J. DeBlander*, President, Winpak Lane, Inc.
*D.A. Johns*, President, Winpak Division, a division of Winpak Ltd.
*T.L. Johnson*, Vice President and General Manager, Winpak Heat Seal Packaging Inc.
*K.P. Kuchma*, Vice President and Chief Financial Officer, Winpak Ltd.
*J.R. McMacken*, Vice President and General Manager, Winpak Portion Packaging, Inc.
*N.L. Rozek*, Vice President, Technology, Winpak Ltd.

## Auditors
PricewaterhouseCoopers LLP, Winnipeg, Canada

## Legal Counsel
Thompson Dorfman Sweatman LLP, Winnipeg, Canada
Jones Day, Atlanta, U.S.A.

# PACKAGING SOLUTIONS

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